

KEY INGREDIENTS IN A LICENCE

It takes a variety of different ingredients to prepare a good licence agreement. Each licence is unique, depending on the specific terms which are agreed. It is a bit like creating a new dish:

You need to pick the right ingredients – in the appropriate quantity and with the right treatment.

Take a peek into our cooking pot and learn more about key ingredients in a licence.

THE SUBJECT & TYPE OF THE LICENCE

It is important to be clear about what you are licensing. Usually this involves several pieces of Intellectual Property (IP) and IP Rights (IPR). In addition to IP protection by formal legal rights (e.g. patent, copyright, design right, etc.), it may also include secrets protected by a non-disclosure agreement, or know-how to be transferred. A licence can be exclusive, non-exclusive or sole. It may also be limited by geographical territory or field of use.

SUBLICENSING

Sublicensing rights should be explicitly granted or explicitly prohibited. This is particularly important for software.

THE PAYMENT

The payment is normally divided into a down payment on signature of the agreement, and royalties. It is also possible to include milestone payments (for agreed milestones). Each of these may have several variations.

IMPROVEMENTS, DEVELOPMENTS & MODIFICATIONS

There are many ways of handling this, but the first thing is to agree how to determine what is an improvement on the licensed IP, and what is new.

OBLIGATIONS OF LICENSOR & LICENSEE

For the licensor, typical obligations include transferring the IP, and maintaining the legal rights, but there could be many others. The obligations placed on the licensee, on the other hand, include exploiting the invention in the best interests of both parties. It may also include obligations to install and maintain efficient systems to monitor use and royalty payments.

THE TERRITORY & FIELD OF USE

The territory can extend to wherever the IPR exists. It is possible to license different people exclusively (or non-exclusively) for different territories. As for the field of use, it is possible to only grant (or exclude) rights for a particular market or technological sector – for example “only for use in the healthcare market” – or “excluding telecommunications applications”. It is possible to license different people exclusively (or non-exclusively) for different fields of use.

THE LENGTH OF THE LICENCE

The length of the licence is usually determined by the lifetime of the IPR. Patents expire after 20 years in most countries. In the case of pharmaceuticals, this might be extended. Other forms of IP have different lifetimes. There are rights which could go on indefinitely, such as trademarks (provided they are used and registration fees are paid), or secrets (as long as they are kept secret).

PERFORMANCE CRITERIA

It is important that the licensee performs well if value is to be returned to the licensor (and ultimately the inventor). This is particularly important for exclusive licences, so consideration should be given to performance minimums to retain exclusivity.

AUDITING

The licensor should ensure that they have the right to audit the licensee, to safeguard that royalty payments are correct.

INTERESTED IN DIVING EVEN DEEPER INTO THE SUBJECT?

We have dedicated a whole Bulletin issue to “[IP licensing](#)”, providing you with a number expert articles, interviews and best-practice examples. Plus, you’ll find additional supporting material on the topic in our [online library](#).

Disclaimer

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The content of this infographic has been prepared in cooperation with Dr Eugene Sweeney, Senior Policy Advisor of the European IP Helpdesk.

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